

Airlines

Industry Announcements for September 17th

Companies Mentioned: AAI, ACAI*, ALK, AMR, AMTR*, AWA, CAL, CGO, DAL, FRNT*, LFL, LUV, MESA*, NWAC*, SKYW*, U, UAL

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Raymond E. Neidl

Erik Chiprich

212/409-7034

212/409-5269

ray.neidl@abnamro.com

erik.chiprich@abnamro.com

Highlights

- ▶ **Schedules are slashed at most major carriers**
- ▶ **Major work force reductions at most carriers**
- ▶ **Continental Airlines did not make a scheduled \$70 million EETC payment on September 17th.**
- ▶ **Airline stock prices declined 20% to 65% on the first day trading resumed.**

Reason for note: Industry Update

As a result of the tragic events that unfolded last week, the airlines have been faced with many difficult decisions. Since changes to airline operations have been rapidly unfolding, we developed a brief synopsis to keep investors abreast of all the new industry developments.

Industry News:

1. US Airways (NYSE: U- 5.57, Hold) announced that it would cut capacity by 23% (from September 10th service levels) and reduce its work force by approximately 11,000 employees.
2. Continental (NYSE: CAL- 20.05, Hold) will reduce capacity by 20% from levels prior to the tragic events that occurred on September 11th. The company previously announced that it was cutting its work force by 12,000 employees.
3. Northwest (NASDAQ: NWAC- 12.42, Hold) also announced that it will cut flights by 20%.
4. America West (NYSE: AWA- 3.00, Hold) announced that it plans to cut 2,000 jobs and reduce its flights by 20%.
5. Amtran (NASDAQ: AMTR- 11.75, Hold) announced that it would lay off 1,500 workers, cut its flight schedule by 20% and retire its B727-200 fleet by October.
6. AirTran (NYSE: AAI- 3.62, Add) announced that its pilots have agreed to temporary changes to its labor contract that will allow the carrier to save approximately 22% in pilot related costs. The changes include a short term cut in salary and changes in minimum flying guarantees. In exchange for these concessions the airline guarantees that no pilots will be furloughed. AirTran will also operate approximately 80% of its schedule for the foreseeable future.
7. Mesa (NASDAQ: MESA- 5.62, Buy) announced that their CEO and COO would take a 50% cut in base salary, while other members of the senior management team will take a 20% cut. Mesa will also reduce turboprop operations at Air Midwest and CCAIR. The reduction accounts for roughly 20% of non-contract flying or 7% of total flying.
8. Atlantic Coast Airlines (NASDAQ: ACAI- 17.02, Buy) will operate 83% of its pre-September 11th flight schedule through the end of the month. UAL (NYSE: UAL- 17.50, Hold) has confirmed that it will continue to use existing and on-order RJ aircraft, but will operate United Express at 80% for the remainder of September and 93% for October under existing contract rates. Delta (NYSE: DAL- 20.64, Hold) plans to operate its full Delta Connection schedule, with the exception of 4 roundtrip flights per day from Reagan National to Boston. ACA plans to take delivery of 4 remaining aircraft allocated to Delta connection, which will bring its dedicated fleet to 30 planes as contracted.

Flashnote

9. Aviation Daily reported that U.S. lawmakers are expected to take up possible legislation to protect American (NYSE: AMR- 18.00, Hold) and UAL from lawsuits resulting from last Tuesday's terrorist attacks. The airlines' insurance cover the airplane's hull and passengers on board, but class action lawsuits for people not on board the aircraft is a concern. It has been reported that Senator McCain is drafting a proposal to limit class action lawsuits and restrict legal actions by people not on board the plane or their families.
10. Continental disclosed that it did not make its \$70 million EETC payment that was due today. The company has between 5 to 10 business days to make the payment before being considered in default.
11. American Airlines will only return to 80% of its previous flight schedule and expects to announce job cuts this week.
12. The US Postal Service will resume the shipment of letters on commercial flights. Roughly 20% of the mail is usually transported by this method.
13. Reagan National Airport remained closed on Monday, September 17th.
14. Southwest Airlines (NYSE: LUV- 13.00, Buy) resumed a full schedule of flights on Monday with 99% of its flights on time.
15. Delta Airlines closed a \$1.25 billion EETC today with proceeds anticipated to be used for general corporate purposes. Delta has a cash balance of \$1.3 billion and with this EETC cash will grow to \$2.55 billion. Delta estimates that it has roughly \$8.9 billion in unencumbered aircraft, with over \$5 billion eligible for Section 1110.

Many of the changes that occurred today were in response to the sharp fall off in traffic that the carriers are realizing. The airline industry has a high level of fixed costs and without the reduction to workforce, schedules and capacity the carriers would have even a more difficult time coping with the lost revenues. Airlines stock prices were down between 20% to 65% today as liquidity positions and discussions of financial help from the government came to the forefront for the airlines ability to weather this difficult environment.

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Additional information available upon request.

Stock Price Changes on September 17th			
<i>Company</i>	<i>Percent Change</i>	<i>Company</i>	<i>Percent Change</i>
AWA	-65%	AAI	-40%
ALK	-29%	ACAI	-36%
AMR	-39%	AMTR	-48%
CAL	-49%	CGO	-9%
DAL	-45%	FRNT	-32%
NWAC	-37%	LFL	-21%
LUV	-24%	MESA	-63%
UAL	-43%	SKYW	-40%
U	-52%		

Source: Reuters

<i>Estimated Daily Loss For The Major Carriers</i>			
<i>(\$ in millions)</i>	<i>Revenues</i>	<i>Total Expenses</i>	<i>Cash Expense</i>
Company	per Day	per Day	per Day
ALK	6.4	6.4	6.1
AMR	61.7	62.6	58.6
AWA	6.8	7.0	6.8
CAL	25.8	25.8	24.5
DAL	46.3	45.1	41.5
LUV	17.2	14.5	13.6
NWAC	29.1	29.4	27.9
U	24.4	26.9	25.8
UAL	51.0	55.9	52.8
Total	268.7	273.6	257.6

Note: Cash expense excludes non-cash expenses such as depreciation

Source: ABN Amro Incorporated estimates

Industry Liquidity				
(\$ in Millions)				
Carrier	Cash Balance	Unused Credit Facility	Debt Maturity	
			2001	2002
AWA	162	0	160	10
ALK	440	150	63	31
AMR	1,500	1,000	569	201
CAL	1,200	0	272	305
DAL	2,550	1,450	62	129
NWAC	1,300	1,125	191	154
LUV	968	475	117	18
UAL	2,500	1,000	383	655
U	1,250	0	284	107
AAI	112	0	63	20
ACAI	136	25	4	5
AMTR	123	100	82	20
CGO	334	75	55	67
FRNT	102	NM	69	67
LFL	67	NM	42	53
MESA	51	35	45	5
SKYW	288	10	10	10

Note: Cash balance for CAL, DAL, and UAL includes \$200 million, \$1.25 billion and \$1.5 billion respectively as a result of EETCs on used aircraft that were recently issued. The proceeds may be used for general corporate purposes.

Note: Cash balances are derived from levels reported in the June quarter 10-Q's. As a result of losses incurred during the third quarter cash balances may have decreased.

Source: Company reports